

**WRITTEN STATEMENT OF  
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BEFORE THE COMMITTEE ON GOVERNMENT REFORM'S  
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REGULATORY AFFAIRS  
UNITED STATES HOUSE OF REPRESENTATIVES  
HEARING ON  
PAPERWORK BURDEN REDUCTION  
May 25, 2005**

Madam Chairman, Mr. Lynch, and Members of the Subcommittee, thank you for the opportunity to testify on the Internal Revenue Service's continuing efforts to reduce unnecessary taxpayer burden.

We remain firm in our commitment to impose the least amount of burden necessary for taxpayers to meet their tax responsibilities. The IRS Strategic Plan, outlining our vision for 2005-2009, is very clear in articulating this goal and making its achievement the responsibility of each and every IRS employee. In spite of our continuing efforts, reducing taxpayer burden and helping taxpayers understand our very complicated and ever changing tax code remains a formidable challenge. As the President noted when he announced the establishment of the Advisory Panel on Tax Reform: "For millions of Americans, the annual rite of filing taxes has become a headache of burdensome record-keeping, lengthy instructions, and complicated schedules, worksheets, and forms-often requiring multiple computations that are neither logical nor intuitive." One of the Panel's goals is to "simplify Federal tax laws to reduce the costs and administrative burdens of compliance with such laws."

### **IRS Burden Reduction Challenges**

Although we are taking aggressive action to diminish taxpayer burden, we fully expect that, without fundamental tax reform, the aggregate burden taxpayers face will continue to grow. Part of this growth is systemic in that it is simply the result of more people filing tax returns each year.

In addition to systemic growth, burden increases as a result of added complexity because of changes in the tax law. Year after year, as Congress passes new legislation, taxpayer burden is increased. Frequent changes to the Code and the complexity of the tax law are the greatest obstacles to overcome as we work to reduce unnecessary taxpayer burden. This growing complexity of the tax law is illustrated by the increase in the number of pages in the CCH Standard Federal Tax Reporter (Reporter), which includes the Code, Treasury Regulations, and IRS rulings. In 1974, the Reporter was 19,500 pages. In 2005 the page count has more than tripled, to 61,000 pages.

Our tax system relies upon voluntary self-assessment of tax liability by taxpayers. Increasing complexity hinders the ability of average American citizens to assess their tax liability, and may serve as a disincentive for taxpayers to comply with their tax obligations. Moreover, the increasing complexity of our tax laws hinders our ability to provide American taxpayers with the service they deserve.

### Distinguishing Between “Necessary” and “Unnecessary” Taxpayer Burden

Tax administration comprises approximately eighty percent of the overall paperwork burden imposed by the federal government. But, that number can be somewhat misleading because much of the burden is the result of action taken by the IRS that is necessary to implement legislation. The IRS creates forms that enable taxpayers to comply with the law. A good analogy is that the forms are a bridge between taxpayers and the tax law, enabling citizens to comply in a consistent manner. That being said, we are committed to eliminating unnecessary burden by making our forms, schedules, publications, processes, procedures, and communications as clear and simple to understand as possible. Note that a significant part of a businesses’ paperwork burden is associated with recordkeeping and financial requirements inherent in conforming to good business practices, regardless of tax-reporting requirements. When we measure the burden from taxes, we do not include such foundational burden that would exist without taxes.

### Impact of Recent Legislation

While new tax legislation often provides worthwhile new benefits or incentives for taxpayers, the tradeoff is often additional complexity and increased burden. Let me provide you with a good example of how new legislation can increase taxpayer burden and how the IRS seeks to reduce any associated unnecessary burden. The Working Families Tax Relief Act of 2004 required revisions to 154 tax products (tax forms, instructions, and publications). The American Jobs Creation Act of 2004 will require revisions to, or the addition of, 174 tax products before it is fully implemented. This includes ten new forms, two that have already been released and eight that are in development. Taxpayers’ paperwork burden will increase based on these new reporting requirements. However, the IRS continues to provide ways to help taxpayers file accurate and timely tax returns to reduce unnecessary burden. For example, the American Jobs Creation Act includes a provision for taxpayers to elect to deduct state and local sales taxes or state and local income taxes as an itemized deduction. This provision is especially beneficial to taxpayers residing in states with no income tax. The IRS developed a new Publication 600, Optional State Sales Tax Table, which includes tables, based on income and family size, to help taxpayers determine their allowable state sales tax deduction without having to collect sales receipts for all applicable purchases. In addition, for taxpayers in Alaska, with 89 local tax jurisdictions, the IRS developed a new Publication 600-A, to address their special needs.

### **Burden Reduction Process**

Over the last several years, we have developed a number of processes that provide opportunities to reduce burden without compromising our regulatory objectives. We have opened a dialogue with numerous external stakeholders including taxpayers, practitioners, citizen groups, industry groups, software developers, and state and federal agencies to receive suggestions for reducing unnecessary taxpayer burden. We have regularly met with the Department of the Treasury, the Office of Management and Budget (OMB), the Government Accountability Office (GAO), and the Small Business Administration (SBA). These discussions are very important because they advance the burden reduction dialogue. We have developed comprehensive strategies to effectively communicate the delivery of programs designed to reduce burden. Over the last year alone, we have communicated to taxpayers about our many programs focused on reducing and simplifying forms, publications and notices, and promoting less burdensome rulings, regulations, and law. For example, this year as part of the redesign of Form 941, Employer's Quarterly Federal Tax Return, we developed and implemented a cross-functional communications plan that began with sharing a draft revision with external stakeholders to ensure it achieved our goals for simplification, and ended with an outreach strategy to ensure tax professionals, taxpayers, and IRS employees made a smooth transition to the new form.

Here are a few of the institutionalized vehicles we used to solicit ideas from the public and third party stakeholders:

- Form 13285A, Reducing Taxpayer Burden on America's Taxpayers was created so the public could participate in identifying taxpayer burden reduction. This form provides taxpayers with a process for submitting ideas for consideration directly to the Office of Taxpayer Burden Reduction. The form is available on [irs.gov](https://www.irs.gov).
- The Industry Issue Resolution (IIR) program was created to give taxpayers, industry associations, and other interested parties a vehicle for submitting burdensome business tax issues for possible resolution through published or administrative guidance. The goal is to quickly resolve tax issues that are common to a significant number of business taxpayers by providing targeted guidance on specific tax issues. Under the program, the IRS has issued guidance that has reduced costs, burden, and uncertainty for taxpayers.
- Practitioner and Small Business Forums with national and local level tax professionals and small business associations provide an opportunity for external customers to share feedback on burden reduction initiatives before they are implemented. These forums also provide a means for identifying and resolving issues of burden and communicating initiatives as they become available.
- The Information Reporting Program Advisory Committee (IRPAC) and the Internal Revenue Service Advisory Council (IRSAC) both play a significant role as external evaluators regarding burden reduction initiatives. Both groups advise the IRS on our initiatives on a regular basis.
- The Taxpayer Advocacy Panel consists of citizen volunteers from all fifty states and acts as a two-way conduit serving, among other important roles, as a focus group for the IRS by providing input on strategic initiatives, as well as providing a

venue for raising issues identified by citizens. This panel is also routinely called upon to make suggestions and to identify ways to reduce taxpayer burden.

- Our Fed/State program has worked in close partnership with state and federal agencies to reduce burden. For instance, the Federation of Tax Administrators, which represents taxing agencies nationwide, is regularly called upon to vet ideas and to provide input.

To further promote burden reduction, we use established national and local networks to ensure we disseminate important information about these important programs as broadly as possible. All of the vehicles mentioned above are fully engaged in this delivery. In addition:

- IRS News Releases and SB/SE Headliners announcing burden reducing initiatives are sent through media channels, including small business and trade publications.
- Practitioner Institutes serve as part of an overall practitioner education curriculum that includes nationwide Tax Forums, liaison meetings, and Tax Talk Today, a monthly program about current tax issues and policies. The Institutes provide a much-needed venue for delivering burden reducing initiatives to those who prepare countless tax returns for the public each year.
- Small Business Tax Workshop materials developed by the IRS are delivered to taxpayers through educational institutions across the country. Public notices of available workshops are posted on [irs.gov](http://irs.gov). For those interested in a self-directed workshop, the On-Line Classroom, a video streaming of a Small Business Tax Workshop, is available. These materials are routinely updated to include burden reducing initiatives.
- The Small Business Resource Guide CD, a one-stop tax information/management tool, is also updated annually to include burden reduction efforts.

We also make a concerted effort to engage IRS employees in suggesting and implementing burden reduction strategies. It is important to note that most of the significant taxpayer burden reduction initiatives require a considerable commitment of our resources to accomplish. Systems must be reprogrammed, processes must be changed, and personnel must be trained. Taxpayers, practitioners, federal and state agencies, and software developers must be included in the process so that changes are as open, transparent, and helpful as possible.

### **The Office of Taxpayer Burden Reduction**

In 2002, the Service established the Office of Taxpayer Burden Reduction (OTBR) to lead cross-Service burden reduction efforts. Since its inception, that Office has aggressively pursued reduction initiatives and enabled the IRS to reduce burden by more than 200 million hours. OTBR has reduced burden by focusing on simplifying forms, publications, and notices; streamlining internal policies, processes, and procedures; promoting less burdensome rulings, regulations, and law; assisting in the

development of a burden reduction measurement methodology and model; and partnering with internal and external stakeholders to more effectively and efficiently identify and address burden reduction initiatives.

Since last year's hearing, OTBR has made progress in leading the IRS in a number of initiatives, and as a result of their efforts:

- We increased the threshold for Forms 1040EZ and 1040A filers from \$50,000 to \$100,000, enabling more than 1 million additional taxpayers to file Form 1040EZ or 1040A instead of a long Form 1040, and reducing their burden by more than 5 million hours (effective for tax year 2004).
- We increased the Form 1040 Schedule C-EZ business expense threshold from \$2,500 to \$5,000, enabling approximately 500,000 additional taxpayers to file a Schedule C-EZ instead of the regular Schedule C, and reducing burden for more than 1 million taxpayers by more than 5 million hours (effective for tax year 2004).
- We increased the Federal Unemployment Tax (FUTA) deposit threshold from \$100 to \$500, and reduced 3.2 million hours of burden for 2.6 million taxpayers (beginning in January 2005).
- We simplified Schedules K-1 for Partnerships and S Corporations and the related instructions to reduce common errors and the burden associated with preparation and filing (effective for tax year 2004). The simplified schedule will reduce approximately 95.1 million hours of burden for the over 20 million taxpayers who receive Schedule K-1, used to report income, deductions, and credits from partnerships and small corporations. These changes should result in fewer pre-filing preparation errors and fewer unnecessary post-filing notices.
- We redesigned the Form 941, Employer's Quarterly Federal Tax Return, to make it easier for the 6.6 million employers who file 23 million of the Forms 941 a year to understand and complete (effective for the 2005 tax year). The new form features a significantly improved layout, with plain language instructions. Cognitive testing, as well as focus testing, was conducted to obtain external feedback prior to finalizing the design. The form is also scannable to decrease the risk of transcription errors.
- We have made significant progress in designing a simplified process for requesting filing extensions. The overall goal is to lessen the burden associated with applying for an extension and to create efficiency in processing extension applications. The new process will be in place in January 2006, to handle the 2005 tax year extension applications. We will consolidate 6 forms into 2, rendering 4 of these forms obsolete. The surviving Form 4868 for individuals and Form 7004 for businesses will be simpler and take less time to prepare. The new process will take taxpayers less time to complete, reduce the potential

for incorrect form submission, and result in less taxpayer contact. Additionally, the business extension will have a format that is e-file compatible to allow approximately 1 million non-corporate entities to e-file extension requests. These changes should save taxpayers 9 million hours. We are also expanding the concept of simplification to estate and gift Form 4768 for taxpayers filing a request for extension to file and pay the related transfer tax.

- We have begun the redesign of the 2005 Schedule K-1, received by trust and estate beneficiaries and used to report income, deductions, and credits on their income tax returns. The format will be changed to resemble the redesigned 2004 Schedules K-1 for partners and shareholders, making it easier for taxpayers to determine where to report amounts from the Schedule K-1 on their income tax returns. The schedules were simplified to reduce common errors and the burden associated with preparation and filing requirements. The schedules are scannable, eliminating the risk of transcription errors. The instructions are also streamlined. The redesign incorporates input from the tax professional community, public comments, and focus groups. We project that the changes will decrease 4.3 million hours of burden for 3.5 million taxpayers.
- We have made considerable progress in establishing an annualized Form 941. Beginning in January 2007, eligible taxpayers will file annual Form 944 rather than quarterly Forms 941 (for taxable period January 2006 through December 2006). The project, which originated with plans to help in-home day care providers, targets taxpayers who owe \$1000 or less per year in total employment tax liability. Annualizing Form 941 (i.e., the new Form 944) offers small businesses significant burden reduction in that taxpayers can file a single return rather than four returns per year (i.e., 1,152,510 returns vs. 4,610,040 returns due currently, i.e., 3,457,530 fewer) and they will make a single payment with their returns. Taxpayer burden will be reduced by approximately 46 to 51 million hours.
- We are also progressing with our redesign of the Form 940, Employer's Annual Federal Unemployment Tax Return, and its associated processes to reduce the burden placed on 5.6 million taxpayers annually (effective for tax year 2006). We will be revising Form 940, 940EZ and 940PR, revising all related instructions, and ensuring optical scanning of the new form in the 2007 processing season.
- Further out on the horizon, we are developing a plan to create a new Form 94X to amend Forms 941, 943, 944, and 945 (effective 2008).

## **Reducing Prefiling Burden**

If we can eliminate confusion and errors before a return or form is ever filed, taxpayers will be spared numerous unnecessary communications and burden. To achieve this goal, we created dedicated taxpayer education and prefiling organizations, as well as prefiling tools to help taxpayers better understand their responsibilities without imposing

undue burden. We have built into all of our business divisions the principle of working with taxpayers and industry groups before they file their returns. We have also dedicated our efforts to create administrative thresholds and safe harbors to minimize recordkeeping.

The IRS has one of the most rigorous paperwork review processes in the Federal government. In contrast to most information collections, which are generally subject to the Paperwork Reduction Act (PRA) process every three years, most IRS forms are subject to the PRA process on an annual basis. For example, all annual tax returns (such as IRS Form 1040 and its schedules and attachments) have been reviewed annually under the PRA for the past 25 years. This continuous analysis and review of tax forms over the years has, we believe, resulted in tax forms that comply fully with statutory standards.

In addition to the changes to the thresholds and forms I previously mentioned, we revised other forms and instructions to reduce taxpayer burden including:

- In 2004 Form 8862, Information to Claim Earned Income Credit After Disallowance, was significantly simplified. We reduced the number of questions asked and, as a result, the form and instructions are two pages instead of four pages. The average total time for completion was almost cut in half, resulting in 1.1 million fewer hours of paperwork for about 1 million taxpayers.
- New Schedule D, Form 941, for Reconciliations was developed for the first quarter of 2005. The schedule is used for reconciliation of employment taxes after statutory mergers, acquisitions, consolidations, etc. The new schedule allows filers to reconcile discrepancies when the Form 941 is filed so that follow up contacts by the IRS are reduced.
- The 2004 instructions for Form 4562, Depreciation and Amortization, were revised. Editorial changes were made throughout the form and instructions to simplify the instructions. Taxpayer burden was reduced by 22.4 million hours.
- In 2004, Form 1023, Application for Tax Exemption Under Section 501(c)(3) and application package were redesigned to ensure that all information needed to make an accurate determination of exempt status is available to the IRS when the application is filed. The redesigned form eliminates redundant reporting and separate forms, consolidates questions and financial data, highlights key words and provides a checklist, among other improvements.
- The instructions for Form 2848, Power of Attorney and Declaration of Representative, were revised in 2004 to reflect new regulations. They now allow representatives to use the same procedures as taxpayers for revoking an existing power of attorney. Also, the Form 2848 may now be filed electronically.

- Effective April 14, 2005, we announced that employers will no longer be required to send copies of potentially questionable Forms W-4, Employee's Withholding Allowance Certificate, to the IRS. In the past, employers had to send to the IRS any Form W-4 claiming more than 10 allowances or claiming complete exemption from withholding if \$200 or more in weekly wages was expected. Rather than require all employers to continue this practice, the IRS will review situations on a case-by-case basis to determine if an employer should withhold income tax from an employee at a more appropriate rate. Additionally, the Office of Taxpayer Burden Reduction is studying the feasibility of simplifying the Form W-4 to reduce burden.

## **Reducing the Burden Associated with Compliance Actions**

### Accomplishments Aimed at Simplifying Notices

The IRS continues to redesign and simplify taxpayer notices. Since last year, we have made improvements to notices affecting of 25.5 million mailings. We simplified eight notices sent to taxpayers to remind them of a balance due. We added tax return line numbers to the remaining paragraphs that are included in math error notices to explain why we changed a taxpayer's account. This issue has been on the Top 20 Problems list of the National Taxpayer Advocate for several years. We simplified two Earned Income Tax Credit notices sent to taxpayers to help determine their eligibility. The redesigned CP 2000, used to address underreporting situations, received an award from the Washington, D.C., Chapter of the Society for Technical Communication. These successes in improving notices are the result of feedback from surveys of taxpayers, and testing high volume, sensitive notices with taxpayers before putting them in production.

### Shortening the Duration of Compliance Activities

Recognizing the considerable time, money, and anxiety associated with the length of time it takes from the time a tax return is filed to the resolution of an issue with the IRS, or cycle time, as we call it, we have a number of initiatives to shorten time frames.

#### *Alternate Dispute Resolution*

We have a number of programs that embrace alternative resolution strategies as a means of shortening cycle time. Just one example is the Industry Issue Resolution (IIR) Program.

The IIR Program was designed to resolve business tax issues where the tax treatment is uncertain, frequently disputed, or burdensome and affects a significant number of taxpayers. Under the program, tax issues are identified by industry associations or others representing both Large and Mid-size Business (LMSB) and Small Business / Self-Employed (SB/SE) taxpayers and submitted to the IRS. Issues submitted are screened at least semi-annually to determine if an IIR project should be started. For each issue selected, an IIR team consisting of IRS and Treasury personnel meets with



taxpayers or other interested parties affected by the issue. The team's goal is to recommend clear guidance that business taxpayers can use, thus, reducing the burden, time and expense associated with resolving issues on a case-by-case basis during tax examinations. Since its inception, sixteen IIR projects have been completed.

### *Examination Reengineering*

Our SB/SE Field Examination processes have been redesigned to shorten the time it takes between the time a taxpayer files his or her return and the time an examination is concluded. Once a return has been selected for examination, the process for that examination has been redesigned to reduce taxpayer burden by placing added emphasis on planning, documenting, analyzing risk and communicating. These four concepts, when brought together in the examination process, produce an efficient, less-intrusive, and quality audit. From the onset of the audit, the taxpayer is informed of the issues to be examined. This reduces the areas of concern for the taxpayer and reduces the documentation required.

We have also improved the front end process of selecting and classifying returns for examination, reducing the number of returns that are selected for audit that are in substantial compliance.

Improvements are not confined to SB/SE Field Revenue Agents. The Form 4549 Report (Income Tax Examination Changes) and Form 886-H, Explanation of Items (request for supporting documentation) used in correspondence examinations have been re-written to make them more understandable. These forms were redesigned in response to feedback we received from our customers who found the old forms confusing. We are eliminating the need for taxpayers to call us, because we found many of the phone calls to our examination teams were simply requests for an explanation of what the forms meant.

Additionally, LMSB has designed the Limited Issue Focused Examination (LIFE) process to reduce taxpayer burden by eliminating mandatory compliance checks and limiting the examination to the most material issues (after a full and robust risk analysis is performed). The result is a reduction in the number of hours required to perform the examination and a reduction in the length of time to complete the examination. Taxpayers tell us they have experienced burden reduction from the LIFE process, and our tracking supports that conclusion.

LMSB recently began a pilot known as Compliance Assurance Process, or CAP, to resolve examination issues upon the filing of the return on a real time basis. CAP is an effort to gauge whether an alternative approach to compliance that allows the IRS to work with corporate taxpayers prior to filing can shorten what are now lengthy post-filing audits.

### Other Taxpayer Burden Reduction Accomplishments

The IRS has a number of initiatives that are in various stages of implementation that will reduce burden by helping us respond to taxpayers' inquiries about their accounts, improve telephone service, and facilitate timely responses to taxpayer correspondence.

- The Desktop Integration System (DI) will provide an IRS call center assistor with access to various IRS systems to determine the status of a taxpayer's account rather than transferring the taxpayer to another office where the account is being worked. This system will reduce the amount of time needed for account resolution and reduce the associated stress for the taxpayer. In addition, this system will allow an assistor to provide timely, quality responses to taxpayer correspondence by lessening the number of communications made to the taxpayer for additional information.
- The Correspondence Imaging System (CIS) improves the quality of customer service by providing on-line access to images of taxpayer correspondence, which aids in the efficient resolution of subsequent phone and written inquiries. Taxpayers are able to obtain information about their accounts accurately, quickly, and conveniently when interacting with Customer Service Representatives. The automated issuance of timely interim letters reduces taxpayer burden by eliminating a reason for second correspondence on a case. This system should benefit taxpayers by decreasing the overall time spent resolving cases. More than 10 million cases are received and worked each year. When fully implemented, the project forecasts that 11.2 million cases per year will be processed through CIS based on FY 2004 receipts.
- Contact Recording provides the technology to record customer contacts (audio & screens) and, based on business-defined rules, deliver them to managers and reviewers for quality review purposes. This enables employees to receive practical feedback and enhances their ability to accurately answer customer inquiries and save time for taxpayers by reducing repeat calls because of wrong answers. Approximately 36 million calls were handled by IRS Call Center assistors in fiscal year 2005 that will be impacted by this initiative.
- The Remittance Transaction Research Project will increase quality of service to taxpayers through early resolution of misapplied payments to taxpayer accounts because images of vouchers and checks will be available for on-line research. This initiative will reduce taxpayer burden because imaged checks and vouchers are available to assistors so that taxpayers are no longer required to provide a copy of their cancelled check. Approximately 3.5 million taxpayers are impacted annually by this initiative.
- Queuing Management Release 1, deployment of the Q-Matic equipment, will reduce taxpayer burden by providing an automated means to route customers to a specific assistor with the appropriate skill set and/or language to resolve

the contact. Q-Matic equipment has been deployed to 87 percent of the Taxpayer Assistance Centers Service-wide.

- The Correspondence Examination Automation Support (CEAS) solution is being developed to process data more efficiently and quickly in order to handle more cases. Correspondence examinations are employed when the IRS requires specific documentation from the taxpayer to support the tax liability or credit. Many returns share the same non-compliance issues, resulting in systematic adjustments and form letters to the taxpayer. Automating this process allows the IRS to increase timeliness and accuracy of examinations, and allows more time to deal with questions raised by taxpayers during the audit.

## **Reducing Filing Burden (E-File Initiatives)**

### Electronic Tax Administration (ETA)

The benefits of electronic filing are clear and compelling. Taxpayers find it more convenient and economical and less time-consuming to do business electronically than sending paper through the mail. Other benefits of electronic filing include faster refunds, increased accuracy of returns, and acknowledgement of receipt of the e-filed return.

Significant challenges remain in transitioning from a paper-based environment to an electronic-based environment. The IRS developed an E-Strategy for Growth which outlines the IRS' plans to reduce taxpayer burden. To achieve the strategic goals, the IRS will develop and implement e-file marketing strategies, continue to expand the use of electronic signatures, and enhance IRS web site services for both practitioners and taxpayers. Ultimately, the goal of the Service is to offer all taxpayers and their representatives the ability to conduct nearly all of their interactions with the IRS electronically.

Taxpayers who transmit their Form 1040 tax returns electronically give high marks to the IRS' electronic filing programs. The American Customer Satisfaction Index (ACSI) shows customer satisfaction scores for IRS e-file exceed the averages for both the Government and retail sectors and rival those of the financial services sector. For electronic tax return filers, the overall ACSI rating is 78 percent. This surpasses the rating among paper return filers and the Government-wide satisfaction rating of 72.1 percent. Customer satisfaction and burden reduction initiatives are fundamental to the IRS' continued efforts to maintain taxpayer trust and compliance. The present e-filing system has demonstrated measurable success with regard to individual taxpayer satisfaction.

From its modest beginning as a pilot program in 1986, when 25,000 returns were filed electronically, the number of e-filed returns has dramatically increased, with more than

61 million returns filed electronically last year. In 2005, IRS expects over 68 million taxpayers to take advantage of the many benefits of electronic filing. These include:

- Faster refunds: Direct deposit can speed refunds to e-filers in about two weeks or less. Through early May 2005, over 51 million refunds were direct deposited, up from the 47.7 million refunds for the same period in 2004, an increase of almost 7 percent. The average direct deposit refund in 2005 is \$2,517, totaling \$128.4 billion, up 11 percent over the prior year. We expect this year's direct deposit numbers to be about 11 percent higher than last year's.
- More accurate returns: E-filed returns are automatically checked for errors or missing information. Processing is more accurate and the likelihood that a taxpayer might receive an error letter from the IRS is reduced.
- Quick electronic confirmation: E-filers receive an acknowledgement that we have received their returns.
- Electronic signatures: Taxpayers and their tax preparers can create a Personal Identification Number (PIN) and file a completely paperless return. Those who take advantage of this option do not mail anything to the IRS. This year taxpayers filed over 14.7 million returns that were signed using a PIN, up 24 percent from the previous year. Also, 35.5 million taxpayers e-filed through a paid preparer and used self-select PIN or a practitioner PIN, up 20 percent.
- Free Internet Filing: Now in its third year, Free File allows millions of taxpayers to prepare and file their Federal tax returns on-line for free. The program is a partnership between the IRS and an alliance of tax software companies that offers free on-line tax return preparation and e-filing services to at least 60 percent of the nation's 130 million taxpayers. As of May 1, 2005, Free File volume was over 5 million returns, 46 percent higher than last year's 3.4 million returns for the same period. Free File was principally designed to advance and increase e-filing receipts and assist taxpayers, particularly in underserved and disadvantaged communities. While each of the 20 companies participating in the program sets its own qualifying criteria for its free services, the majority of the offerings are designed to serve lower-income individuals or families who claim the earned income tax credit. Others are based on the taxpayer's age, military service, or state residency. Currently, 11 companies are offering free services for all taxpayers with no restrictions.
- Easy payment options: E-filers with a balance due can file early and schedule a safe and convenient electronic funds withdrawal from their bank account, or pay with a credit card. Almost 2.1 million people have paid their Federal taxes by electronic funds withdrawal or credit card in 2005, up from over 1.4 million in the prior year, a 47 percent increase.

- Federal/State e-filing: Taxpayers in 37 states and the District of Columbia can e-file their Federal and state tax returns in one transmission to the IRS. The IRS forwards the state data to the appropriate state agency. In 2005, more than 32.3 million taxpayers filed Federal-state electronic returns.

#### Taking the Paper Out of Business Taxpayer Burden in 2004

The IRS has taken steps to decrease the burden of business taxpayers by introducing a variety of electronic services that will ease both information reporting and payment of taxes. Businesses file annual income tax returns but are also required to file various employment tax returns and information returns. They must also make periodic payments to the Federal Government, such as income tax withheld from employees' earnings and unemployment taxes. In fact, payments are a business's most frequent transaction with the IRS. We plan to convert all of these transactions to fast, accurate, paper-free electronic methods, and we are making progress on a number of fronts.

As of May 2005, over 5.1 million taxpayers are enrolled in the Electronic Federal Tax Payment System (EFTPS). These taxpayers have made over \$1.07 trillion in electronic tax payments through EFTPS, which now includes an on-line option.

In FY 2004, IRS received more than 2.4 million Form 941 (Employer's Quarterly Federal Tax Return) e-file program returns. In FY 2004, 351,396 businesses used the Form 940 (Employer's Annual Federal Unemployment Tax Return) e-file program, and more than 91,737 partnerships chose to e-file Form 1065 (U.S. Return of Partnership Income) in FY 2004.

IRS is also delivering several applications that provide tangible benefits to taxpayers and improve the efficiency and effectiveness of our tax administration system. They include:

#### *Employment Tax E-File System*

The Employment Tax E-File System offers an improved way for current Form 940 and 941 e-file and On-Line Filing Partners to file returns with the IRS, and for the first time, Electronic Return Originators (EROs) have the ability to offer electronic employment tax filing for their clients. The Employment Tax E-file System will provide more filing options, flexible filing, faster acknowledgements, an integrated payment option, a completely electronic signature process, and a Federal-state filing component, all of which will result in reduced burden for the tax preparation community and the taxpayers they represent.

#### *E-Services*

E-Services is a suite of Internet based products that allows tax professionals and payers to do business with the IRS electronically. These services include Preparer Taxpayer Identification Number (PTIN) applications with instant delivery, Taxpayer Identification Matching (TIN) matching for third-party payers, on-line registration for electronic E-Services, and on-line initiation of the electronic return originator application.

Incentives are being offered for E-Services registration, such as on-line disclosure authorization, electronic account resolution, and transcript delivery system. In addition, the availability of incentives to those tax professionals and payers that e-file has been lowered from 100 to 5 individual returns filed.

E-Services Registration is 50,000 for FY 2005, a 110 percent increase from the same time in 2004. Thirty-six percent of all PTIN applications are now received on-line. E-Services have almost doubled the number of TIN matching in 2005; Interactive Matching is over 1 million and Bulk Matching is over 28 million. E-File applications received on-line are 30 percent of the total volume in 2005. In 2005, E-Services processed 18,000 Disclosure Authorizations, 5,000 Electronic Account Resolutions cases, and 106,000 Transcript Delivery System requests.

#### *Modernized E-File System (MeF)*

On February 20, 2004, IRS launched the Modernized e-File (MeF) program. This new electronic filing program, developed and delivered through the IRS Business Systems Modernization program, gives corporations and tax-exempt organizations the ability to file annual tax returns electronically over the Internet. For the first time, electronic filing is available to corporations filing their corporate income tax returns, Forms 1120 and 1120S, and charitable organizations filing their annual Form 990, along with related forms and schedules. These forms are the first to be filed through a modernized e-file program that uses a secure Internet connection instead of a modem to transmit tax return data. Corporations filed more than 6 million Forms 1120 and charitable organizations filed 825,000 Forms 990 last year. The IRS has accepted over 134,000 returns in 2005, more than 100 percent of the total volume projected for this year.

More than 748,000 nonprofit organizations enjoy the benefits of burden reduction through the IRS' implementation of MeF for Forms 990. MeF effectively addresses the problem of rejected returns. Approximately 40 percent of exempt organizations' returns were rejected due to oversight, such as omission of required schedules, incorrect name or identification numbers, missing signatures, and mathematical errors. While IRS personnel were able to correct many of these errors, just as many result in the issuance of correspondence to the filer. This creates significant delays in the processing of these returns. E-filing will reduce many of the steps associated with IRS Service Center paper processing, including mail handling, editing, data entry, and error resolution. From the taxpayers' perspective, it will reduce taxpayer correspondence, mail handling, time spent trying to resolve errors, and recordkeeping.

The Form 990 series of returns is unique because each is a multi-jurisdictional form used by both the IRS and state regulators. The current plans for MeF are to enable single point filing to meet both Federal and state filing requirements. This capability will save state tax resources and eliminate duplicative filings by the taxpayer. Almost 1,000 Forms 990 have been filed through the MeF program in 2005.

#### *Fed/State Electronic Federal Tax Payment System (EFTPS)*

The IRS and the Treasury Department's Financial Management Service EFTPS have scheduled a two-state pilot for South Carolina and Illinois in January 2006. This pilot will enable taxpayers to pay their federal and states taxes at one website. In addition, federal and state tax withholdings will be made through a payment portal via one transaction and one Personal Identification Number (PIN). This initiative will make it more convenient and easier for taxpayers to make their federal and state tax payments.

#### *Internet Refund Fact of Filing (IRFOF)*

The inquiries to the on-line "Where's My Refund?" has increased to over 18 million this year. This is an increase of over 52 percent from 2004. The increased use of "Where's My Refund?" has reduced the number of phone calls from taxpayers seeking their refund status.

#### *Future Electronic Initiatives*

In the near future, the IRS will be offering additional incentives to taxpayers to file their returns electronically. These initiatives will reduce taxpayer burden. These incentives include:

- Web services & Fed/State MeF: In 2006, the IRS will partner with states to develop Corporation and Tax Exempt state filing and have begun initial work on state partnership returns.
- 1040 e-file: Taxpayers will be able to electronically file six new forms in 2006.
- MeF: Additional forms will become available for the Form 1120 in 2006 and the Form 1065 will be available in the MeF system in 2007.

In addition, the Administration's budget request contains a legislative proposal to extend the due date for electronically-filed returns and to require electronic filing by large businesses and exempt organizations. This will encourage more taxpayers to electronically file their returns.

### **Support of Government-Wide Paperwork Burden Reduction**

The IRS has been supportive of all Government-wide efforts to reduce the regulatory and paperwork burden imposed on our customers, including aggressively addressing the requirements of the Small Business Paperwork Relief Act (SBPRA) of 2002. The IRS is well represented on the SBPRA task groups addressing Government-wide burden, making it easier for small businesses to understand their regulatory requirements, identifying ways to integrate and consolidate data, and making recommendations to improve the electronic collection and dissemination of data collected under Federal requirements. As the 2002 SBPRA Task Force recommended, the IRS is working with the Business Gateway E-Government Initiative to make it easier for businesses to interact with the Federal government and help to reduce burden through data harmonization and forms consolidation. In addition, periodic meetings are

held with SBA and OMB to discuss burden reduction efforts and to identify partnering opportunities.

**Conclusion**

Madam Chairman and members of this panel, reducing taxpayer burden is one of my strategic priorities and is the cornerstone of the Service aspect of our working equation at the IRS – “Service *plus* Enforcement *equals* Compliance.” Burden reduction is everyone’s job at the IRS. Again, I appreciate the opportunity to testify before your committee and I welcome any questions.



## **Appendix**

### **Past Burden Reduction Efforts**

In response to the committee's request for a listing of our past burden reduction efforts, the following are our most significant initiatives from 1998 to 2004.

#### **1998 and 1999**

**Simplification of Form 5500 Series:** Form 5500, Annual Return/Report of Employee Benefit Plan, and related Forms 5500-C and 5500-R were replaced with one streamlined Form 5500 for use by all filers for the 1999 plan year. Forms 5500-C and 5500-R were eliminated and small benefit plans had less extensive reporting requirements.

**1998 Form 1040 Tax Packages:** Tax packages were improved to promote electronic filing and highlight tax law and form changes to make it easier for taxpayers to find the information they need. The graphics were also improved by adding more white space and larger print for improved readability. Extensive changes were made to the instructions of Form 1040-ES (Estimated Tax for Individuals) that resulted in a decreased burden of 3.7 million hours.

**Moving Expense Reporting:** The IRS combined Form 3903, Moving Expenses, and Form 3903-F, Foreign Moving Expenses, into one Form 3903. This change simplifies the decision for taxpayers as to which form to use and saves taxpayer dollars by only having one form for moving expenses.

**Employment Tax Deposit Threshold:** Effective July 1, 1998, the IRS increased the threshold for deposits of employment taxes from \$500 to \$1,000. This regulatory change significantly reduces the reporting burden for an estimated 1.5 million employers who will no longer be required to complete the Federal Tax Deposit coupons (or make deposits) or complete the record of tax liabilities on the employment tax forms.

**Substantiation of Business Expenses for Travel, Entertainment, Gifts, etc.:** Existing regulations had required supporting evidence, such as a receipt, for all expenses of \$25 or more for travel, entertainment, gifts, etc. The regulations were revised in 1997 to raise this receipt threshold to \$75, thus reducing the paperwork burden on taxpayers.

**Relieving Burden of Reporting Capital Gain Distributions:** Starting in tax year 1999, taxpayers whose only capital gains were from mutual fund distributions may not need to file Schedule D (Form 1040), "Capital Gains and Losses." Instead, these gains are reported directly on Form 1040, line 13. IRS developed a new worksheet in the 1040 instructions to assist taxpayers in calculating the tax.

Rather than having to complete the 54-line schedule, these taxpayers can use a much easier 15-line worksheet. The change to the worksheet represents a dramatic burden reduction of 23.76 million hours for approximately six million taxpayers.

**Form 2210 Streamlining (Underpayment of Estimated Tax by Individuals, Estates and Trusts):** We removed two lines from the 1999 Form 2210, Schedule AI, Part II. Schedule AI, Part II is completed by self-employed taxpayers to calculate their self-employment tax when computing any estimated tax penalty. Each line had four entry spaces, one for each payment period. These taxpayers now have two fewer lines to complete and eight fewer calculations to make.

### **2000 - 2001**

**Relieving Burden of Reporting Capital Gain Distributions:** For tax year 2000, a line was added to Form 1040A for reporting capital gain distributions from mutual funds, thus allowing the IRS to send the simpler Form 1040A package to the approximately 2.5 million taxpayers who in the past had to file Form 1040 to report those distributions.

**Checkbox Initiative:** Beginning in tax year 2000, taxpayers with Paid Return Preparers can use the Paid Preparer Authorization Checkbox on all Form 1040 series returns with the exception of TeleFile. This checkbox indicates the taxpayer's desire to allow the IRS to discuss the tax return and attachments with the preparer while the return is being processed. This provides for a significant reduction in paperwork for millions of taxpayers.

Including a checkbox on the family of 1040 returns was a direct response to requests from our external stakeholders, such as the South Florida Citizen Advocacy Panel (CAP), National Society of Accountants, National Association of Tax Practitioners and National Association of Enrolled Agents.

The checkbox designation enables practitioners quickly to resolve questions concerning the processing of the taxpayer's return. It also reduces the number of contacts necessary to resolve processing questions and eliminate the need for the submission of paperwork for a Power of Attorney, which is not required to resolve simple problems with a taxpayer's account. This initiative also addresses the practitioner groups' concern that this designee not be afforded post-assessment correspondence or representation.

This initiative provided significant burden reduction for many taxpayers who would otherwise have to obtain and fill out Form 2848 (Power of Attorney and Declaration of Representative) and Form 8821 (Third Party Authorization Disclosure).

After we announced the initiative in April 2000, we expanded the check box authorization on the tax year 2001 Form 1040 series of returns to allow the designation of any third party, such as an elderly taxpayer's son or daughter, not just the paid

preparer, to discuss processing problems. This action allows more expeditious handling of processing and refund problems.

We also revised most business income tax returns with a paid preparer block to allow the designation of the paid preparer. For the major employment and excise tax returns, which do not have a paid preparer block, we added a section to allow taxpayers to designate either their paid preparer or an employee.

**Reordering of Credits on Forms 1040 and 1040A:** For tax year 2000, IRS reversed the order of the education credits line and the child tax credit line on these forms. This will allow filers claiming the child tax credit to figure that credit in a more logical manner (i.e., after they have figured any education credits). This reordering will also allow IRS to write simpler instructions because the Agency will not have to tell taxpayers to jump ahead to the education credits line, figure the credits, and then come back to the child tax credit computation.

**Simplified Credit Calculation on Tax Year 2000 Form 8839, Adoption Credit:** Instead of adding another line for credit carryforwards from 1999 to 2000, the IRS eliminated that proposed line (and existing lines for carryforwards from 1997 and 1998) and replaced it with one line for “carryforwards from a prior year.” A worksheet in the instructions lets taxpayers calculate the amount to put on that line. The IRS eliminated lines on the form for prior year credit carryforwards to 2001 (four lines eliminated).

**Excise Tax – Form 2290, Heavy Vehicle Use Tax Return Initiative:** Each year, the IRS sends out approximately 790,000 Form 2290 tax packages to taxpayers potentially liable for the tax. Research performed by the IRS Cincinnati Service Center determined that approximately 265,000 taxpayers receiving the package had not filed a Form 2290 for the past three years.

By analyzing our internal databases, the IRS was able to notify over 239,000 taxpayers that they may no longer be liable for the tax. It takes approximately 30 minutes to read the Form 2290 filing instructions and determine if a liability exists. Multiplying this time by the 239,000 taxpayers, we reduced taxpayer burden by 119,793 man hours. There are 500,000 Forms 2290 filed annually with tax liabilities of \$800 million dollars.

**Employment Tax Deposit Threshold:** In 2001, in an effort to provide even more burden relief to small business employers, the IRS raised the employment tax deposit threshold again, from \$1,000 to \$2,500 in quarterly employment taxes. This affects the payment requirements for about one million small businesses. Through our continued efforts, we estimate that between 70-80 percent of small businesses can be relieved of the burden of making as many as 12 deposits annually.

**Change of Address:** Beginning in 2000, a licensing agreement between the IRS and the U.S. Postal Service, allowed taxpayers who move after filing their tax returns to have their addresses automatically updated, even if they do not notify us by filing Form 8822, Change of Address.

Under this arrangement, the IRS will use the Postal Service's National Change of Address (NCOA) database to update the addresses in its own Master File of taxpayer data. This address updating process provides quicker resolution of undelivered refund checks. The IRS checks the names and old addresses in the NCOA weekly update files against the names and addresses in the IRS database. Where there is an exact match, the IRS updates its file with the taxpayer's new address. According to the Postal Service, there are about 800,000 address changes each week.

In addition to helping IRS get refunds to taxpayers, this program permits the IRS to make earlier contacts with them to resolve issues such as delivery of a returned refund, possible unreported income, examination of a return, or collection of unpaid tax.

**Cash Versus Accrual Methods of Accounting:** In April 2000, the IRS issued Revenue Procedure 2000-22 (later modified and clarified by Revenue Procedure 2001-10) which permits qualifying business taxpayers with average annual gross receipts of \$1,000,000 or less to use the cash receipts and disbursements methods of accounting. This action also provides the procedures by which a taxpayer may obtain automatic consent to change to the cash method.

This procedure had an enormous impact on lessening burden for small businesses that could use the much simpler, easier to understand, and usually advantageous cash method. By our calculations, we have exempted the vast majority of the small business taxpayers who otherwise would have been required to use an accrual method.

### **2002-2003**

**Burden Relief for Smaller Corporations: Exempting Some From Filing Schedules L, M-1, & M-2:** For tax years beginning in 2002, we exempted corporations having less than \$250,000 of gross receipts and \$250,000 in assets (both tests must be met) from completing Schedules L, M-1, & M-2 of Form 1120; Parts III and IV of Form 1120-A; and Schedules L and M-1 of Form 1120S. These changes established a more reasonable threshold for these businesses. It allows them to use recordkeeping based on their checkbook or cash receipts and disbursements journal, for example, instead of a double-entry system until they grow to the point where more internal controls would be needed.

Schedule L (Part III of Form 1120-A) provides beginning and end of the year balance sheets based on the corporation's books. Typically, corporations with less than \$250,000 of gross receipts and assets prepare a formal balance sheet only because it is required for income tax purposes. Formally relieving them of this preparation step does not cause undue hardship in an audit situation. However, taxpayers will still be required to maintain records detailing their assets, liabilities, and shareholders' equity accounts.

Schedule M-1 (Part IV of Form 1120-A) provides a reconciliation of income (loss) per accounting records with the income (loss) reflected on the tax return. Since generally

accepted accounting principles (GAAP) do not always mirror the tax reporting requirements, Schedule M-1 provides a bridge between book accounting and tax reporting.

Typically, the Schedule M-1 is completed as the first step in preparing the tax return. The preparer will start with the book income (loss) as reflected on the final trial balance. The next step would be an analysis or comparison between the tax treatment of specific items and how they are reflected on the books.

For example, while a capital loss is fully deductible per GAAP, for tax it can only be used to offset capital gains. Therefore, if a net capital loss was deducted for book purposes, it would have to be added back in arriving at taxable income.

While an analysis of Schedule M-1 is recognized as an integral step in the audit process, in the examination of corporate tax returns with less than \$250,000 of gross receipts and assets, it generally has limited application. Specifically, most of the corporations falling into this classification reflect limited activity on the M-1. Generally, if there is a net income, the M-1 will show entries on line 1 (Net income [loss] per books), line 2 (Federal income tax per books), and line 10 (Income, line 28, page 1).

At the time of this change, the reality was that the greater number of corporations having less than \$250,000 in gross receipts and assets do not properly adjust between book accounting and tax reporting. Formally relieving them of this preparation step does not cause undue hardship in an audit situation. However, taxpayers will still be required to maintain records detailing all adjustments made to book income in arriving at taxable income.

We also examined Schedule M-2, which analyzes unappropriated retained earnings. As with the M-1, for corporations with less than \$250,000 in gross receipts and assets, the M-2 reflects little more than the beginning balance affected by the current income (loss) and the ending balance.

Again, for the size corporations being discussed, formally relieving the obligation to complete the schedule M-2 will not have a detrimental impact from an examination standpoint. However, as with the M-1, if there are changes to retained earnings other than just the current income (loss), the taxpayer must be required to maintain proper records detailing said changes.

**Filing Requirements for Schedule B Changed:** In September 2002, the IRS and Treasury Department announced an increase in the threshold for filing a separate schedule for interest or dividend income. The change meant that more than 15 million taxpayers will have one less schedule to file with their tax returns.

For their 2002 tax returns, most taxpayers did not have to file a separate schedule if they have interest or dividend income of \$1,500 or less. Form 1040 filers use Schedule

B, Interest and Ordinary Dividends, to list the names of those who paid them along with the amount; Form 1040A filers use Schedule 1.

The new IRS standard replaced the existing reporting threshold of \$400 that has been in place since 1974. Without the shift, more than 40 million taxpayers would have had to file Schedule B or Schedule 1 in 2003.

This change also enabled another 800,000 taxpayers to use the shorter Form 1040EZ or use TeleFile to file their tax returns by telephone by increasing the maximum amount of interest income they can report to \$1,500.

As in past years, certain taxpayers with bank or other financial accounts in a foreign country (and certain taxpayers involved in foreign trust transactions) must continue to file Schedule B, regardless of the amount of interest or dividends they receive.

Taxpayers with ordinary dividends and taxable interest, each of which, do not exceed the \$1,500 threshold will report only the totals on their Form 1040.

**Day Care Providers:** In late 2002, the IRS announced that family day care providers may now choose to use a standardized rate to claim the deduction for meals provided to children in their care. This is in lieu of keeping detailed records and receipts for food purchased for use in their business. Use of the standardized rate significantly reduced the recordkeeping burden of family day care providers, which are predominantly small businesses.

The change means day care providers will save a conservatively estimated 10 million hours by using the standard meal rate. If these providers decide not to use the rates, they can continue to take the deduction based on the actual cost of the meals.

**Checkbox on Social Security Benefits Worksheet:** For tax year 2002, we deleted two checkboxes on the Social Security benefits worksheet used by individual taxpayers, reducing burden by as much as a million hours for filers of Form 1040.

Prior to 2002, if a taxpayer checked “No” on line 2, it meant the Social Security benefits reported in box 5 of Form SSA-1099 were less than zero and there would be no taxable benefits. If a taxpayer checked “Yes,” the taxpayer would enter one-half of line 1. Since an amount reported in box 5 of Form SSA-1099 is rarely less than zero, the checkboxes have been deleted, thereby eliminating unnecessary burden. Line 2 has been replaced with “Enter one-half of line 1.”

**Reducing Burden on Form 6251:** For tax year 2002, we reduced complexity and taxpayer burden by eliminating 11 lines on Form 6251 (Alternative Minimum Tax – Individuals). This reduction was accomplished by eliminating unnecessary subtotal lines and consolidating other lines. We estimate that 4.2 million taxpayers will benefit from these changes and reduce burden by over 1 million hours.

**Coverdell ESAs:** In the past, everyone receiving a distribution from a Coverdell education savings account (ESA) had to file Form 8606 (Nondeductible IRAs) even if all of the distribution was used for education expenses. The IRS eliminated this requirement beginning in tax year 2002. This eliminated 5 entry spaces and aligned the reporting of these distributions to Section 529 plans (qualified tuition plans).

**Relieving Burden of Reporting Capital Gains Distributions:** For tax year 2001, we reduced paperwork burden for millions of taxpayers who were filing the 54-line Schedule D. Rather than adding four more lines to an already crowded form to accommodate the new 8 percent capital gains rate, we looked for creative ways to shorten the form. When filing their taxes in 2002, more than 21 million Schedule D filers discovered that they had a form that is 40 lines long.

## **2004**

**Standard Mileage Rate:** To reduce recordkeeping burden, IRS expanded the use of the standard mileage rate for taxpayers with multiple vehicles. Starting in 2004, the standard mileage rate may be used for up to four vehicles in the taxpayer's business. Previously, those businesses owning more than one vehicle for use in their business could not use the standard rate at all, leaving them to track the actual expenses for each vehicle. With this change, more than 800,000 businesses will be eligible to use the standard mileage rate, saving 8-10 million hours in recordkeeping burden. Revenue Procedure 2003-76 contains additional information on the standard mileage rates.

**Reduced and Increased Burden on Individual Income Tax Returns:** We made changes to the 2003 Forms 1040 and 1040A and their instructions and schedules that reduced estimated burden by almost 12 million hours. This included changing the Schedule SE, Self-Employment Tax, to allow taxpayers to skip lines on the form if they are only liable for the Medicare portion of the self-employment tax. However, the burden on Forms 1040 and 1040A was estimated to increase by over 28 million hours to implement tax legislation, the Jobs and Growth Tax Relief Reconciliation Act of 2003. This Act provided significant benefits to individuals and businesses, despite the net increase of 16 million burden hours.

### **Consolidation of Publications Relating to Tax Benefits for Education:**

We have made obsolete Publication 508, *Tax Benefits for Work-Related Expenses*, and Publication 520, *Scholarships and Fellowships*. The information in these publications has been added to Publication 970, *Tax Benefits for Education*. Taxpayers and tax practitioners now have one primary source for information in this area of tax benefits.

**Form 8855:** We developed a new Form 8855, *Election to Treat a Qualified Revocable Trust as Part of an Estate*, for executors and trustees. With this form, taxpayers have a format to follow and can be sure to include all the necessary election information prescribed by the regulations. An official IRS form is easier for taxpayers to use than a self-prepared statement and enhances compliance. It also allows the IRS to more

accurately process elections, thus minimizing the need for IRS employees to contact taxpayers in order to resolve questions arising from such elections.

**Schedule D:** We simplified the 2004 Schedule D, Form 1040 by eliminating Part IV, *Tax Computation Using Maximum Capital Gains Rates*. Instead, taxpayers will use the *Qualified Dividends and Capital Gain Tax Worksheet*. Previously, only taxpayers who were not required to file Schedule D used this worksheet. In focus group tests, taxpayers preferred the format of the worksheet to Part IV. Although this change does not result in quantifiable burden reduction under our current method of measuring burden, we are responding to customer preferences. The implementation of the 2003 tax law changes (eliminating the special treatment of 5-year gains and the pre-May 6, 2003, capital gain tax rates) will also result in burden reduction. In 2003, the reporting burden on Schedule D was 123.8 million hours. For 2004, the reporting burden is estimated at 109 million hours, or 14.8 million fewer hours.

**Business Credit Forms:** For Tax Year 2004, we deleted 7 lines from each of 19 general business credit forms (for a total reduction of 133 lines) by replacing 8 separate lines for tax credits with a single line. These changes will reduce taxpayer-reporting burden by almost 3 million hours in tax year 2004. The affected forms are:

- Form 3468, Investment Credit;
- Form 3800, General Business Credit;
- Form 5884, Work Opportunity Credit;
- Form 6478, Credit for Alcohol Used as Fuel;
- Form 6765, Credit for Increasing Research Activities;
- Form 8586, Low Income Housing Credit;
- Form 8820, Orphan Drug Credit;
- Form 8826, Disabled Access Credit;
- Form 8830, Enhanced Oil Recovery Credit;
- Form 8835, Renewable Electricity Production Credit;
- Form 8844, Empowerment Zone and Renewal Community Employment Credit;
- Form 8845, Indian Employment Credit;
- Form 8846, Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips;
- Form 8847, Credit for Contributions to Selected Community Development Corporations;
- Form 8861, Welfare-to-Work Credit;
- Form 8874, New Markets Credit;
- Form 8881, Credit for Small Employer Pension Plan Startup Costs;
- Form 8882, Credit for Employer-Provided Childcare Facilities and Services; and
- Form 8884, New York Liberty Zone Business Employee Credit.